ANNUAL USE OF CAPITAL SURVEY - 2009

NAME OF INSTITUTION
(Include Holding Company Where Applicable)

Royal Bancshares of Pennsylvania

Person to be contacted regarding this report:	Robert Kuehl, CFO	RSSD: (For Bank Holding Companies)	2324429
CPP Funds Received:	$30,407,000	Holding Company Docket Number: (For Thrift Holding Companies)	
CPP Funds Repaid to Date:	$0	FDIC Certificate Number: (For Depository Institutions)	18962
Date Funded (first funding):	2/20/2009	City:	Narberth
Date Repaid[1]:		State:	Pennsylvania

[1]If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP). To answer that question, Treasury is seeking responses that describe generally how the CPP investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP investment was deployed or how many CPP dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP funds were outstanding).

☒	Increase lending or reduce lending less than otherwise would have occurred.	Loans and leases declined from $700.7 million at year end 2008 to $686.9 million at year end 2009 due to pay downs of existing loans, charge-offs of $19.8 million and transfer to OREO of $20 million. The TARP funds provided capital to facilitate lending of $46.7 million in our geographic footprint.

☒	To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).	The $46.7 million of new loans was comprised of $11.5 million in middle market lending, $15.6 million in small business lending and $19.6 million in corporate real estate lending. Without the TARP capital, most of this lending would not have occurred during 2009.
☒	Increase securities purchased (ABS, MBS, etc.).	The Company increased its investment portfolio from $383.8 million to $439.9 million as a result of increased retail CDs, but primarily due to the TARP funds. The entire increase was invested in U.S. government mortgage- backed securities, which supported residential mortgage lending.
☐	Make other investments	
☒	Increase reserves for non-performing assets	The Company recorded a provision for loan and lease losses of $20.6 million during 2009 of which $11.0 million was attributed to a specific valuation allowance for impaired loans. In addition, the provision also covered a portion of the $19.8 million in charge-offs recorded during the year.

☒	Reduce borrowings	During the second half of 2009, the Company was able to reduce FHLB borrowings and advances by $21 million as a result of the increased liquidity provided by the TARP capital.
☒	Increase charge-offs	As noted previously, $19.8 million in charge-offs were recorded during 2009 and was primarily related to construction, commercial real estate and land development loans.
☐	Purchase another financial institution or purchase assets from another financial institution	
☐	Held as non-leveraged increase to total capital	

What actions were you able to avoid because of the capital infusion of CPP funds?

The capital received from the Treasury's TARP Capital Purchase Program enabled the Company to absorb additional losses through the sales of riskier investments, prevented the Company from halting lending, allowed the Company to avoid liquidity issues, and avoided capital ratios from falling below well-capitalized. During the second half of the year common stock and corporate bonds within the investment portfolio were sold at a loss to reposition the investment portfolio. Without the additional capital the investments might not have been sold which could have resulted in even greater losses within the portfolio later in the year or 2010. As previously noted the Company was able to continue lending throughout 2009 by recording new loans of $46.7 million in the small business, middle market and corporate real estate loan segments. Without the TARP funds the lending initiatives throughout 2009 would have been severely curtailed.

The additional capital provided cash that was subsequently invested in U.S. government agencies, which provided unpledged securities that improved the liquidity levels within the Company. Required liquidity levels during the past year have been much higher than average historical levels in this recessionary economy due to the uncertainty surrounding customer behavior in response to their current cash requirements and concern for the safety of their deposits. The TARP funds provided sufficient liquidity in the event that customer reaction had resulted in a run-off of transaction deposits or maturing retail certificates of deposit. In addition, as a result of the additional capital the Company was able to absorb additional losses of $33.3 million for the full year 2009, mainly related to loan and investment impairment, and remain well-capitalized. At year end the Company's and Royal Bank America's Tier 1 capital ratios were 9.78% and 8.09%, respectively, while the Company's and Royal Bank America's total risk-based capital ratios were 15.45% and 13.37%, respectively.

Without the additional TARP funds, the Company's strategic options throughout 2009 would have been extremely limited.

What actions were you able to take that you may not have taken without the capital infusion of CPP funds?

The capital received from the Treasury's TARP Capital Purchase Program enabled the Company to absorb additional losses, mainly through impairment on loans and investments, maintain higher than normal liquidity ratios, increase and shift the mix of the investment portfolio and continue to provide commercial lending within the geographic footprint. These topics are all covered above in the response to the previous question. The additional capital also allowed the Company greater strategic options in addressing issues such as liquidity risk, credit risk, concentration risk and reputational risk. The Company was able to restructure the investment portfolio and absorb some losses on the sale of investments, increase the retail deposit base due to the well-capitalized status of the Bank, provide adequate collateral to the FHLB despite full collateral delivery status while also maintaining excess liquidity, and reduce reliance on brokered certificates of deposit and FHLB advances.

During 2009 deposits (excluding brokered deposits) increased from $585.9 million to $674.8 million and the additional capital from TARP funds amounted to $30.4 million. This increased liquidity allowed the Company to reduce the brokered deposits by $11.3 million and FHLB borrowings by $21 million during the year while also positioning 2010 for even further reductions. Throughout the second half of 2009 liquidity as a percent of total deposits and as a percent of total liabilities were generally 30% or more and 20% or more, respectively, versus policy levels of 12% and 10%, respectively. U.S. government mortgage-backed securities, which accounted for 34% of the investment portfolio at the beginning of 2009 and increased to 77% by year end 2009, provided enhanced liquidity, reduced risk-weighting within the portfolio and significantly reduced credit risk.

Please describe any other actions that you were able to undertake with the capital infusion of CPP funds.

According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 1505-0222. The time required to complete this information collection is estimated to average 80 hours per response.